

**REPORT OF THE AUDIT OF THE
LESLIE COUNTY
SHERIFF'S SETTLEMENT - 2002 TAXES**

April 22, 2004



**CRIT LUALLEN
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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Kenneth Witt, Leslie County Judge/Executive
Honorable John Morgan, Leslie County Sheriff
Members of the Leslie County Fiscal Court

The enclosed report prepared by Ross & Company, PLLC, Certified Public Accountants, presents the Leslie County Sheriff's Settlement - 2002 Taxes as of April 22, 2004.

We engaged Ross & Company, PLLC to perform the financial audit of this statement. We worked closely with the firm during our report review process; Ross & Company, PLLC evaluated the Leslie County Sheriff's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

Crit Luallen
Auditor of Public Accounts

Enclosure



**REPORT OF THE AUDIT OF THE
LESLIE COUNTY
SHERIFF'S SETTLEMENT - 2002 TAXES**

April 22, 2004

ROSS & COMPANY, PLLC
Certified Public Accountants
800 Envoy Circle
Louisville, KY
Telephone (502) 499-9088
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EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
LESLIE COUNTY
SHERIFF'S SETTLEMENT - 2002 TAXES

April 22, 2004

Ross & Company, PLLC has completed the audit of the Sheriff's Settlement - 2002 Taxes for Leslie County Sheriff as of April 22, 2004. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$3,149,233 for the districts for 2002 taxes, retaining commissions of \$131,034 to operate the Sheriff's office. The Sheriff distributed taxes of \$3,015,365 to the districts for 2002 Taxes. Taxes of \$3,677 are due to the districts from the Sheriff and refunds of \$4,010 are due to the Sheriff from the taxing districts.

Report Comments:

- The Sheriff Should Collect Refunds Due To Tax Account And Distribute Additional Amounts Due To Others
- The Sheriff Should Prepare Accurate And Timely Tax Reports
- The Sheriff Should Prepare An Accurate Settlement
- The Sheriff Should Invest Funds In An Interest-Bearing Account
- The Sheriff Lacks Adequate Segregation Of Duties

Deposits:

The County Sheriff's deposits were insured and collateralized by bank securities or bonds.

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Independent Auditor's Report

We have audited the Leslie County Sheriff's Settlement - 2002 Taxes as of April 22, 2004. This tax settlement is the responsibility of the Leslie County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Leslie County Sheriff's taxes charged, credited, and paid as of April 22, 2004, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated April 14, 2005, on our consideration of Leslie County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Kenneth Witt, Leslie County Judge/Executive
Honorable John Morgan, Leslie County Sheriff
Members of the Leslie County Fiscal Court

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Sheriff Should Collect Refunds Due To Tax Account And Distribute Additional Amounts Due To Others
- The Sheriff Should Prepare Accurate And Timely Tax Reports
- The Sheriff Should Prepare An Accurate Settlement
- The Sheriff Should Invest Funds In An Interest-Bearing Account
- The Sheriff Lacks Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in cursive script that reads "Ross & Company".

Ross & Company, PLLC

Audit fieldwork completed -
April 14, 2005

LESLIE COUNTY
JOHN MORGAN, COUNTY SHERIFF
SHERIFF'S SETTLEMENT - 2002 TAXES

April 22, 2004

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 302,871	\$ 359,255	\$ 676,824	\$ 208,610
Tangible Personal Property	57,684	87,310	155,961	171,792
Intangible Personal Property				13,110
Fire Protection	5,439			
Franchise Corporation	53,136	77,818	139,941	
Additional Billings	201	233	450	171
Unmined Coal - 2002 Taxes	141,232	163,539	315,646	97,330
Oil and Gas Property Taxes	93,062	107,781	207,964	64,099
Penalties	9,541	10,944	21,248	6,933
Adjusted to Sheriff's Receipt	(53)	(58)	(116)	(37)
Gross Chargeable to Sheriff	<u>\$ 663,113</u>	<u>\$ 806,822</u>	<u>\$ 1,517,918</u>	<u>\$ 562,008</u>
<u>Credits</u>				
Exonerations	\$ 14,666	\$ 16,986	\$ 32,775	\$ 11,229
Discounts	6,742	8,171	15,310	6,698
Delinquents	<u>50,629</u>	<u>61,503</u>	<u>116,523</u>	<u>59,396</u>
Total Credits	<u>\$ 72,037</u>	<u>\$ 86,660</u>	<u>\$ 164,608</u>	<u>\$ 77,323</u>
Taxes Collected	\$ 591,076	\$ 720,162	\$ 1,353,310	\$ 484,685
Less: Commissions *	<u>25,408</u>	<u>30,607</u>	<u>54,132</u>	<u>20,887</u>
Taxes Due	\$ 565,668	\$ 689,555	\$ 1,299,178	\$ 463,798
Taxes Paid	564,623	692,372	1,350,711	461,652
Late Penalty				317
Additional Taxes Paid				3,482
Commissions Refunded from School			<u>53,993</u>	
Due Districts or (Refunds Due Sheriff) as of Completion of Fieldwork	<u>\$ 1,045</u>	<u>\$ (2,817)</u>	<u>\$ 2,460</u>	<u>\$ (1,019)</u>

* and ** See Next Page

LESLIE COUNTY

The accompanying notes are an integral part of this financial statement.

JOHN MORGAN, COUNTY SHERIFF
 SHERIFF'S SETTLEMENT - 2002 TAXES
 April 22, 2004
 (Continued)

* Commissions:

10% on	\$	10,000
4.25% on	\$	1,785,923
4% on	\$	1,353,310

** Special Taxing Districts:

Library District	\$	(1,749)
Health District		(328)
Extension District		(742)
Soil Conservation		(171)
Hyden		173
		<hr/>

Due Districts or (Refunds Due Sheriff)	\$	<u>(2,817)</u>
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LESLIE COUNTY
NOTES TO FINANCIAL STATEMENT

April 22, 2004

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of April 22, 2004, the Sheriff's deposits were fully collateralized at a 100% level with collateral of pledged securities held by the Sheriff's agent in the Sheriff's name.

LESLIE COUNTY
NOTES TO FINANCIAL STATEMENT
April 22, 2004
(Continued)

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2002. Property taxes were billed to finance governmental services for the year ended June 30, 2003. Liens are effective when the tax bills become delinquent. The collection period for these assessments was July 31, 2003 through January 30, 2004.

B. Unmined Coal Taxes

The tangible property tax assessments were levied as of January 1, 2002. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was August 20, 2003 through February 13, 2004.

Note 4. Sheriff's 10% Add-On Fee

The Leslie County Sheriff collected \$45,713 of 10% add-on fees allowed by KRS 134.430(3). This amount will be used to operate the Sheriff's office. As of April 14, 2005, the Sheriff owed \$166 in 10% add-on fees to his fee account.

Note 5. Advertising Costs And Fees

The Leslie County Sheriff collected \$2,349 of advertising costs and \$3,635 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising costs to the county as required by statute, and the advertising fees will be used to operate the Sheriff's office.

Note 6: Unrefundable Duplicate Payments And Unexplained Receipts

The Sheriff should deposit any unrefundable duplicate payments and unexplained receipts in an interest-bearing account. According to KRS 393.110, the Sheriff should properly report annually to the Treasury Department any unclaimed moneys. After seven years, if the funds have not been claimed, the funds should be submitted to the Kentucky State Treasurer. For the 2002 taxes, the Sheriff had \$2,366 in unrefundable duplicate payments and unexplained receipts. Therefore, the Sheriff should send a written report to the Treasury Department.

COMMENTS AND RECOMMENDATIONS

LESLIE COUNTY
JOHN MORGAN, COUNTY SHERIFF
COMMENTS AND RECOMMENDATIONS

As of April 22, 2004

STATE LAWS AND REGULATIONS:

- 1) The Sheriff Should Collect Refunds Due To The Tax Account And Distribute Additional Amounts Due To Others

Based upon test procedures, our audit reflects the following refunds due the sheriff and the following amounts due others for the 2002 taxes:

<u>Refunds Due To The Tax Account</u>	
Fee Account - Commission Overpayment	\$ 646
State	1,019
Library	1,749
Health	328
Extension	742
Soil Conservation	<u>171</u>
Total Refunds Due To 2002 Tax Account	<u>\$ 4,655</u>
 <u>Amounts To Be Paid To Others</u>	
County	\$ 1,045
School	2,460
Hyden	173
Add-on Fees Due Sheriff's Fee Account	166
Repayment of Fee Account for payment of state taxes	<u>3,482</u>
Total Amounts To Be Paid To Others	<u>\$ 7,326</u>

We recommend that the sheriff collect refunds due the 2002 tax account. Furthermore, we recommend that the sheriff pay the additional amounts due others as soon as the refunds are collected.

Sheriff's Response: I agree the refunds should be collected and the additional amounts paid and will do so in a timely manner.

LESLIE COUNTY
JOHN MORGAN, COUNTY SHERIFF
COMMENTS AND RECOMMENDATIONS
As of April 22, 2004
(Continued)

2) The Sheriff Should Prepare Accurate And Timely Tax Reports

The Sheriff did not prepare timely and accurate monthly reports for 2002 tax collections. The results of the additional procedures performed revealed penalties had been overstated due to problems associated with the way monthly reports were processed through the computer system. In addition, we found that the sheriff did not prepare timely monthly reports for tax collections. KRS 134.300 requires monthly tax reports to be accurate and payments be made by the tenth of each month following the collection of taxes. In an effort to strengthen internal controls over tax reporting, we recommend that the sheriff perform a monthly reconciliation between the batched tax bills, deposits and monthly reports. Any variances noted should be reconciled immediately and be performed by the tenth of each month. Furthermore, we recommend that the sheriff implement the procedures immediately to strengthen internal controls over tax reporting.

Sheriff's Response: Our 2002 monthly reports came from the SACS system the state provides to the office. From the first time we used this system, it computed the daily amounts incorrectly which made the monthly figures wrong. This in turn made our tax reports and payments to the districts considerably off. We have addressed this issue with our Rep. Denny Miller.

3) The Sheriff Should Prepare An Accurate Settlement

The sheriff's settlement for the 2002 taxes was not accurate. There were several categories that were incorrectly stated. KRS 134.325 requires the sheriff to make settlement with the Revenue Cabinet for all taxes collected for the Commonwealth. We recommend that the sheriff prepare an accurate settlement and maintain supporting documentation for all amounts reflected on the annual settlement.

Sheriff's Response: This settlement that was not accurate is the direct result of the reports from SACS computer which was also not accurate.

4) The Sheriff Should Invest Funds In An Interest-Bearing Account

The Sheriff deposited funds into a noninterest-bearing account during 2002 tax collections. In accordance with KRS 66.480, the Sheriff should deposit tax collections into an interest-bearing account. Earnings on the tax collections should be distributed to his fee account and the school district in accordance with KRS 134.140. We recommend the Sheriff deposit tax collections into an interest-bearing account and distribute the related earnings to his fee account and the school district.

Sheriff's Response: None.

LESLIE COUNTY
JOHN MORGAN, COUNTY SHERIFF
COMMENTS AND RECOMMENDATIONS
As of April 22, 2004
(Continued)

INTERNAL CONTROL - MATERIAL WEAKNESSES:

5) The Sheriff Lacks Adequate Segregation Of Duties

The Sheriff's office has a lack of segregation of duties. Due to the entity's diversity of official operations, small size and budget restrictions, the official has limited options for establishing an adequate segregation of duties. We recommend that the following compensating controls be implemented to offset this internal control weakness:

- The Sheriff should periodically compare a daily bank deposit to the daily checkout sheet and then compare the daily checkout sheet to the receipts ledger. Any differences should be reconciled. He could document this by initialing the bank deposit, daily checkout sheet, and receipts ledger.
- The Sheriff should compare the monthly tax reports to the receipts and disbursements ledgers for accuracy. Any differences should be reconciled. The Sheriff could document this by initialing the monthly tax reports.
- The Sheriff should periodically compare the bank reconciliation to the balance in the checkbook. Any differences should be reconciled. The Sheriff could document this by initialing the bank reconciliation and the balance in the checkbook.

Sheriff's Response: None.

PRIOR YEAR:

The Sheriff Should Require Depository Institutions To Pledge Or Provide Additional Collateral To Protect Deposits.

This comment has been corrected and is not repeated in the current year audit.

The Sheriff Should Invest Moneys Into Interest-Bearing Accounts.

This comment is repeated in the current year audit.

The Sheriff Should Report And Pay Taxes On Or Before The Tenth Of Each Month.

This comment is repeated in the current year audit.

The Sheriff Should Collect All Amounts Due From Districts And Pay Amounts Due To Districts.

This comment is repeated in the current year audit.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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ROSS & COMPANY, PLLC
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The Honorable Kenneth Witt, Leslie County Judge/Executive
Honorable John Morgan, Leslie County Sheriff
Members of the Leslie County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the Leslie County Sheriff's Settlement - 2002 Taxes as of April 22, 2004, and have issued our report thereon dated April 14, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Leslie County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions.

Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. A Reportable condition is described in the accompanying comment and recommendation.

- The Sheriff Lacks Adequate Segregation Of Duties.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is a material weakness.

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

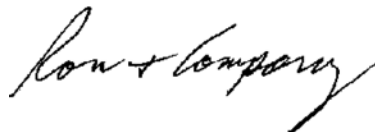
Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Leslie County Sheriff's Settlement - 2002 Taxes as of April 22, 2004 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

- The Sheriff Should Collect Refunds Due To Tax Account And Distribute Additional Amounts Due To Others
- The Sheriff Should Prepare Accurate And Timely Tax Reports
- The Sheriff Should Prepare An Accurate Settlement
- The Sheriff Should Invest Funds In An Interest-Bearing Account

This report is intended solely for the information and use of management and the Governor's Office for Local Development and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ross & Company", written in a cursive style.

Ross & Company, PLLC

Audit fieldwork completed -
April 14, 2005

